PROTECTING THE PUBLIC: Bureau of Alcohol, Tobacco and Firearms' Compliance Inspections Effectively Targeted Firearms Violators

OIG-01-038

February 8, 2001

This report has been reviewed for public dissemination by the Office of Counsel to the Inspector General. Information requiring protection from public dissemination has been redacted from this report in accordance with the Freedom of Information Act, 5 U.S.C. section 552.



Office of Inspector General

The Department of the Treasury

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The Department of the Treasury Office of Inspector General

February 8, 2001

Bradley A. Buckles
Director
Bureau of Alcohol, Tobacco and Firearms

The Gun Control Act of 1968 (GCA) established the first comprehensive Federal licensing system for importers, manufacturers, and dealers in firearms to the retail level. The Bureau of Alcohol, Tobacco and Firearms (ATF) is responsible for enforcing the licensing provisions of the GCA, which requires the Federal Firearms Licensee (FFL) to maintain detailed records. Once a license is issued, ATF may inspect an FFL's inventory and records without warrant to ensure compliance with recordkeeping requirements of the GCA. Since 1986, however, the law has limited ATF to one such inspection during a 12-month period, absent consent of the licensee.

We conducted the audit because Congress and the Administration continue to emphasize the effective regulation and control over firearms. The overall objective of this review was to determine the effectiveness of ATF's efforts in targeting the most frequent violators of gun laws and sources of crime guns. The audit fieldwork was performed from May to November 2000. We conducted fieldwork at Headquarters and three field offices, where we interviewed ATF officials, evaluated records and procedures, and participated in a compliance inspection. We also conducted a telephone survey of Directors of Industry Operations (DIO) across the country. The scope of this review covered Fiscal Year (FY) 1999 and FY 2000 (first six months). See Appendix 1 for a more detailed description of the audit objectives, scope, and methodology.

Results in Brief

Our review showed that ATF targeted the worst violators of gun laws and sources of crime guns. Its national initiatives, such as the Focused Inspection Program and the recently completed Commerce in Firearms Initiative, were designed to address these concerns. ATF was also taking appropriate administrative action based on violations disclosed during firearms compliance inspections.

Our audit results indicated, however, that there were some areas that management officials could address to further improve their program. First, field offices needed additional guidance on inspection priorities,

Second, field office management did not consistently use the N-Spect Report of Inspection Hours and Expenses by Unique Identifier (Activity Report) containing inspector hours and expenses in monitoring inspector activity. Finally, ATF has not developed specific performance measures that show the impact of firearms compliance inspection activities on reducing violent crimes.

To address these issues, we made four recommendations in this report. The ATF Director should ensure that Headquarters officials monitor the resources available in field offices to conduct required inspections.

ATF Headquarters officials should issue additional guidance to ensure field offices complete a proper balance of inspections.

The ATF Director should also determine whether the Activity Report is a beneficial management tool for the field offices in evaluating inspector performance, and if so, he should issue a directive requiring its

proper use. Lastly, performance measures should be developed to

measure the impact compliance inspection activities have on

reducing violent crimes.

ATF agreed with the three findings and four recommendations made in this report. As a result, ATF has implemented a program manager position expressly to oversee the field planning process and to monitor the field's workload and priorities. Also, ATF has scheduled the release of a newer maintenance version of the N-Spect system. Based on a work group review of all management reports, reports were either edited or totally rewritten to better meet both field and Headquarters supervisory needs. Lastly, ATF

developed a specific performance measure to determine the impact of compliance inspections on violent crime. ATF's response to our draft audit report is provided as Appendix 2.

Background

Each year, about 4.5 million new firearms, including approximately 2 million handguns, are sold in the United States. An estimated 2 million secondhand firearms are sold each year as well. Part of ATF's mission is to prevent diversion of these firearms from the legal to the illegal market, and to keep them out of the hands of criminals, unauthorized juveniles, and other prohibited persons under the GCA. In 2000, there were 104,070 FFLs in the country. In October 1998, ATF initiated the current inspection policy, referred to as focused inspections. Inspections are selected on the basis of greatest potential at achieving established performance measures. The primary selection criteria come from the ATF Crime Gun Analysis Branch's semi-annual (January/June) analysis of all FFLs. The Branch's information includes the:

- number of crime guns traced to a FFL in a one year time frame,
- time-to-crime,
- number of reported stolen firearms,
- types of firearms involved,
- origination of the trace requests, and
- number of unsuccessful traces associated with a particular FFL.

As a result of its Commerce in Firearms in the United States Report (February 2000), ATF devised the Commerce in Firearms Initiative. As part of this program, ATF sent demand letters to FFLs who had been uncooperative in response to trace requests, requiring the submission of all their firearms transaction records for the previous three years. Demand letters requiring information about used guns acquired for sale were also sent to FFLs who had traced to them

10 or more guns that were found to have had a time-to-crime of three years or less. In addition, ATF conducted comprehensive compliance inspections of dealers who had been uncooperative in response to trace requests and of FFLs who had 10 or more crime guns (irrespective of time-to-crime) traced to them in 1999.

In its Report to the Secretary on Firearms Initiatives (Draft October 2000), ATF reported that 1,012 focused inspections were completed during their Commerce in Firearms Initiative, 3,338 violations of firearms laws and regulations were identified, and a total of 484,122 firearms were in the inventories of the targeted FFLs.



Finding 1 Field Offices Need Additional Guidance on Priority of Inspections

ATF Headquarters establishes inspection targets for field offices each year, and provides guidance on identifying areas that take precedence in the range of ATF responsibilities.

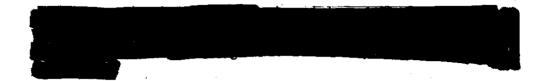
Field offices face competing priorities for their inspection resources with Headquarters establishing inspection targets each year, and field offices initiating their own projects. For FY 2000, Headquarters officials issued memos changing the inspection targets as indicated in Table 1.

Table 1: FY 2000 Inspection Targets

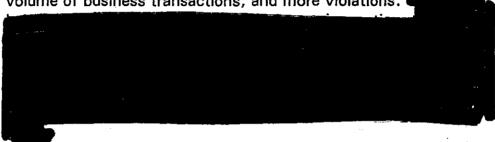
Date	Required Inspections
9/99	Three percent of the FFL population for FY 2000 to encompass FFLs that have certain characteristics that may indicate the potential for compromising the integrity of commerce in firearms.
12/99	All FFLs with FY 1999 inspections that resulted in administrative actions, identified a large number of record-keeping violations, identified a large number of missing inventory, and had a high number of firearms trafficking indicators.
2/00	Specific FFLs who had been uncooperative in responding to traces and had more than 10 crime guns traced to them in 1999 (Commerce in Firearms Initiative).

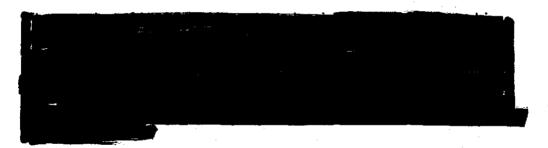


The inspectors from this office had been involved in projects to inspect the worst violators of Federal gun laws. In addition to the Firearms in Commerce Initiative started by ATF Headquarters, there were two projects initiated by the Field Division Director and one project in conjunction with the local police department.

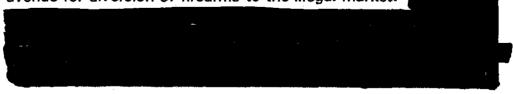


During our review, we found that more hours on average were required to complete an inspection in this office than in the other offices we visited. The FFLs had large firearm inventories, a high volume of business transactions, and more violations.





ATF's policy is that, while honest errors should not be a basis for revocation, licensees who are unable or unwilling to meet their obligations cannot be allowed to continue in the business. Inspectors are to take administrative actions against FFLs who commit willful violations of the GCA. Failure to comply provides an avenue for diversion of firearms to the illegal market.



Headquarters provided guidance identifying areas that take precedence in the range of ATF responsibilities, including conducting focused compliance inspections of specific types of FFLs. ATF officials also stated that other goals and objectives

should not be ignored to address these priorities.

When implementing future directives, Headquarters officials should monitor resources and, when necessary, provide guidance on what inspections take priority.

Recommendations

The ATF Director should ensure that Headquarters officials:

- 1. Monitor the resources available in field offices
- 2. Provide additional guidance on allocating resources to field offices when initiating new inspection programs to ensure they complete a proper balance of inspections.

Management Comments

ATF concurred with the audit findings and recommendations. ATF's Field Management Staff has implemented a program manager position expressly to oversee the field planning process and to monitor the field's workload and priorities. Under separate cover, we learned that the program manager position was effective October 22, 2000.

OIG Comment

We consider this recommendation to have a management decision with final action completed.

Finding 2 Field Offices Did Not Consistently Use N-Spect Reports

The field office management did not consistently use the Activity Report as a performance measure of inspector activity. The Activity Report is a management tool, which is available to field office management to evaluate inspectors. Without using this report, field offices may not be taking full advantage of all N-Spect offers. Headquarters had not issued any directives requiring field office use of this report to monitor inspector performance or explaining its benefits to field offices.

N-Spect, an inspection management system supporting regulatory enforcement operations, is designed to reduce the administrative burden on ATF inspectors. Information is entered once and can be used in multiple areas of the system. The Activity Report identifies the FFL, the inspector assigned to the inspection, the dates the inspection opened and closed, and the total time and expenses associated with the inspection. The inspector time and expenses shown on the Activity Report are based on the information provided by the inspectors in the Inspector Diary screen in N-Spect. The Inspector Diary enables inspectors to capture time and expense information on a daily basis. Diary information can be summarized for inspection management statistics and on ATF travel youchers.

N-Spect generates 13 management reports that can be used by the field offices. Headquarters does not specifically require the Activity Report be used. It is a management tool available to the field offices. N-Spect is a new system and, as the field offices become more familiar with its capabilities, it is important that they develop consistency in its use.

Field offices use the Operating Plan, in part, to determine their inspection schedule for the fiscal year based on the types of inspections identified in the plan and total hours available for inspections. Field office performance can be measured by comparing the number of completed inspections to the number identified in the Operating Plan. In monitoring inspector performance, we noted differences between the three field offices

we visited. Two DIOs relied mainly on the number of completed inspections, either as a part of the field office Operating Plan or through program directives from Headquarters. The other DIO was using the Activity Report to monitor inspector performance.

Recommendation

We recommend that the ATF Director:

 Determine whether the Activity Report is beneficial to field office management in evaluating inspector performance. If the report is beneficial, issue a directive requiring the proper use of the Activity Report.

Management Comments

ATF concurred with the finding and recommendation. ATF commented that Field supervisors had experienced technical difficulties in using the N-Spect system, due to certain coding inaccuracies, which caused its inconsistent use. To address this problem, the N-FOCIS Program Office is scheduled to release a newer maintenance version of the N-Spect system. ATF also had a work group review all the Management Reports. Based on their review, reports were either edited or totally rewritten to better meet both field and Headquarters supervisory needs. When the improvements to N-Spect are completed, the Office of Field Operations will clarify and confirm the requirement and value of the use of N-Spect Activity Reports to all managers and supervisors.

OIG Comment

We consider this recommendation to have a management decision with a projected final action date of late spring 2001.

Finding 3 Performance Measures Need To Be Enhanced

ATF has not developed specific performance measures for firearms compliance inspection activities as required by the Government

Performance and Results Act of 1993 (GPRA). Consequently, ATF is not able to demonstrate the effectiveness of its firearms compliance inspections activities. While ATF officials use various methods to evaluate their activities, they have found it difficult to quantify the impact of compliance inspections on reducing violent crime.

GPRA requires each agency to prepare an annual performance plan covering each program activity set forth in the agency's budget. The plan shall establish performance goals to define the level of performance to be achieved. The plan should express such goals in an objective, quantifiable, and measurable form. It should establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity. It should also provide a basis for comparing actual program results with the established performance goals. Lastly, the plan should describe the means to be used to verify and validate measured values. GPRA's intent is to hold agencies accountable less for inputs and outputs and more for outcomes. By outcomes, GPRA meant the results of government programs as measured by the differences they make, for example, in the lives of the citizens.

ATF's FY 2000 Budget Submission included FFL inspections in its definition of the performance measures it would be reporting on in future submissions. However, the FY 2001 Budget Submission no longer identified FFL inspections in its performance measures definitions. The Director of Strategic Planning commented that ATF does not gauge effectiveness of their inspections. It is assumed they are effective, but this has not been quantified. The field offices use the number of inspections as their primary method of performance measures. If they complete a project or initiative requested by Headquarters, this is considered a successful performance measure.

In its Report to the Secretary on Firearms Initiatives (Draft October 2000), ATF notes various statistical information on their Commerce in Firearms Initiative. Statistical information reported includes the number of inspections completed, number of traces, types of violations, inventory discrepancies, multiple sales/referrals,

and recommended actions. While this type of information is valuable in demonstrating what ATF has done, ATF needs results-oriented performance measures, which reflect the activities' actual impact.

Program offices started to take a serious look at performance measures in 1997 with the current measures still under review by the Program office. N-Spect performance measure worksheets include information on the results of the inspection, such as the size of firearms inventory, number of violations noted, and the number of unreported multiple sales in a given inspection. The performance information recorded in N-Spect effectively demonstrates inspection results. However, ATF has not yet been able to quantify the effectiveness of inspections. Because of the difficulty in quantifying inspection results, ATF has requested funds for compliance effectiveness studies, but these requests have not been included in the final budget proposal.

Recommendation

We recommend that the ATF Director ensure:

 Performance measures are developed to measure the impact compliance inspection activities have on reducing violent crimes.

Management Comments

ATF concurred with the audit finding and recommendation. To address this issue, ATF held a seminar on performance measures for all Bureau Headquarters program personnel, which focused on the development of performance measures and measurement skills and techniques. As a result, the Firearms Trafficking Branch has developed and published a specific performance measure to determine the impact of compliance inspections on violent crime. The average number of violations cited during recall inspections will be compared to previous violations found to measure the increase (or decrease) in the level of compliance. ATF stated they would continue to develop and examine goals and define additional performance

measures relative to the impact of compliance inspection activities. The goal is to establish performance measures by mid-year and to continue to redefine and refine the measures yearly.

OIG Comment

We consider this recommendation to have a management decision with a projected final action date of mid-year 2001.

We appreciate the cooperation we received from ATF officials during this audit. If you wish to discuss this report, you may contact me at (312) 886-6300, ext. 118. Major contributors to this report are listed in Appendix 3.

Kolerta M. Rickey
Roberta N. Rickey

Regional Inspector General for Audit

We conducted this review because ATF initiated a focused inspection policy, as well as the Firearms in Commerce Initiative, which required field division personnel to select licensees for inspection based on a range of indicators of potential firearms traffickers derived from the National Tracing Center database. Congress and the Administration continue to emphasize the effective regulation and control over firearms.

Our overall objective was to determine the effectiveness of ATF's efforts in targeting the most frequent violators of gun laws and sources of crime guns. Our specific objectives were to determine whether:

- Firearms compliance inspections were in accordance with ATF inspection strategies and other guidance provided by Headquarters,
- ATF was taking appropriate action when violations are found during firearms compliance inspections, and
- ATF developed adequate performance measures for firearms compliance inspections and whether those performance measurements comply with the Government Performance Results Act.

Our review generally covered inspection activities at ATF field offices from October 1998 through March 2000. To accomplish our review, we conducted work at ATF Headquarters in Washington, D.C., where we interviewed officials and other employees in the: (1) Office of Firearms, Explosives and Arson, (2) Strategic Planning Office, and (3) Crime Gun Analysis Branch. We reviewed policies, procedures, and records related to: (a) the focused inspection strategy, (b) administrative actions, (c) the Firearms in Commerce Initiative, (d) performance measures, and (e) ATF's inspection management system (N-Spect).

We also visited ATF field offices in Chicago, Miami, and Nashville, where we interviewed ATF supervisors and inspectors, and reviewed ATF completed compliance inspection files. We observed

Appendix 1
Objectives, Scope, and Methodology

N-Spect's use in the field, participated in an inspection of a FFL, and we conducted a telephone survey with DIOs in selected field divisions.

We conducted our audit between May 2000 and November 2000 in accordance with generally accepted government auditing standards.



DEPARTMENT OF THE TREASURY BUREAU OF ALCOHOL, TOBACCO AND FIREARMS WASHINGTON, DC 20226

JAN 24 2001

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MEMORANDUM TO: Assistant Inspector General for Audit

FROM: Director

SUBJECT: Review of Draft Audit Report on the

Bureau's Firearms Inspection Program

We have received the draft of the subject audit report and appreciate the opportunity to review and provide comments. Our comments, which follow, address the report's three findings and four recommendations.

FINDING 1 (Field Offices Need Additional Guidance on Priority of Inspections) recommends ATF Headquarters officials should (1) monitor the resources available in field offices (2) provide additional guidance on allocating resources to field offices when initiating new inspection programs to ensure they complete a proper balance of inspections,

Comments On Findings or Reasons for Disagreement

Without disputing the Inspector General's (IG) finding that additional field guidance would improve ATF's Firearms Inspection Program, we would point out that the Office of Field Operations (FO) continually refines the guidance provided to the Division Directors (DD) each fiscal year. Using the established field planning process, Headquarters officials get input from the DDs, and provide field program guidance each fiscal year for use in preparing each field division's operating plan. This guidance is published in the form of a memorandum, with attachments as appropriate, that identifies and defines Bureau project codes and provides minimum requirements for the various program areas. Those requirements are based on the DDs' recommendations as to the personnel and other resources available in their divisions.

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Assistant Inspector General For Audit

Prior to conducting the referenced Focused Inspection Program and throughout the conduct of the project, including ATF's regulatory initiative involving demand letters, Headquarters provided guidance to field offices through a variety of methods including memoranda, e-mail and TECS messages. This information was provided to the IG review team prior to the start of the review. In addition, Firearms Programs Division continually monitored the progress of the demand letter initiative, which was a component of ATF's overall focused inspection program, and provided monthly updates to the Under Secretary (Enforcement).

Prior to receiving a copy of this review, Headquarters managers responsible for Firearms Programs and Field Operations began the process of review and coordination of programs and priorities for the remainder of this fiscal year, and for FY-02. These meetings included discussions regarding how to better coordinate and prioritize programs and operations before and during any inspection initiatives, and how to clearly communicate revisions to the field. This has resulted in a renewed commitment by all parties to more closely monitor the demand placed by program activities on field resources. Additionally, FO has implemented a program manager position expressly to oversee the field planning process and to monitor the field's workload and priorities. As a result, the affected directorates work more closely together in the development and implementation of future inspection initiatives.

ATF is in the process of hiring 200 new inspectors. After these new hires receive mandated formal classroom and on the job training, a significant portion of their inspection time will be devoted to the inspection of firearms industry members.

Assistant Inspector General For Audit

Finally, ATF's Director provides information annually to all managers and supervisors on ATF's executive-level priorities for each fiscal year. In addition, each directorate identifies their own priorities for the fiscal year in a related document. ATF's FY-00 executive level and directorate priorities can be found on ATF's Intraweb under "Strategic Planning."

Actions Taken

A memorandum, dated August 8, 2000, and entitled "FY 2001 Field Program Guidance," was issued to all DDs and Headquarters Division Chiefs. This memorandum outlines the FY-01 operating plan priorities, including project codes and definitions and levels of inspections required in the various industries regulated by ATF.

ATF's Office of Firearms, Explosives and Arson (FEA) and the Strategic Planning Office (SPO) published a memorandum, dated February 15, 2000, entitled "Office Minimum Field Requirements for FY-2001." This memorandum summarized the field requirements (priorities) for activities affecting FEA.

ATF will continue to refine, publish, and provide executive-level and directorate priorities to all managers and supervisors for FY-01. Further, revisions in priorities will be communicated clearly through the Assistant Director (Field Operations).

Target Dates for Completion

ATF will publish FY-01 priorities by February 28, 2001.

FINDING 2 (Field Offices Did Not Consistently Use N-Spect Reports) recommends (3) that ATF determine whether the Activity Report is beneficial to field office management in evaluating performance. If the report is beneficial, issue a directive requiring the proper use of the Activity Report.

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Assistant Inspector General For Audit

Comments On Findings or Reasons for Disagreement

ATF believes that the Activity Report segment of N-Spect is a beneficial tool and has placed the report within this database for that purpose. Headquarters managers and some field offices use N-Spect reports to monitor field activities. However, we recognize that field supervisors have been experiencing technical difficulties in using the N-Spect system, due to certain coding inaccuracies. Utilization of N-Spect is inconsistent now, but improvement is expected. The system is currently under development. and receives enhancements with each new phase or programming release. ATF is developing more training for N-Spect users and is endeavoring to make N-Spect userfriendlier, and therefore more effective and reliable as a management tool. When the improvements to N-Spect are completed, FO will clarify and confirm the requirement and value of the use of N-Spect Activity Reports to all managers and supervisors.

Actions Taken

To address the current technical problems in the Report of Inspector Activity by PPC, the N-FOCIS Program Office is scheduled to release maintenance Version 1.3 soon. Testing began January 12, 2001. If no "bugs" are found, Version 1.3 should be ready for release by the end of January. If bugs are identified they must be corrected and tested prior to release.

A work group of five Area Supervisors from across the country came to Washington, DC, in November 2000 to review all of the Management Reports with the Field Management Staff, the N-FOCIS Program Office and Performance Engineering Corporation (PEC). Reports were either edited or totally rewritten to better meet both field and Headquarters supervisory needs. The new reports will be in maintenance release Version 1.4, scheduled for early spring 2001. FO has assigned an N-Spect coordinator to oversee the development and troubleshoot for these new field reporting systems.

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Assistant Inspector General For Audit

Funding for developing N-Spect (as well as N-Force) has suffered over the past two fiscal years as ATF has labored to install financial systems that meet the Chief Financial Officer Act mandate for cost accounting. The Financial Management Division is now able to track resource expenditures at the activity/program/project level as specified in our strategic plan.

Target Dates for Completion

The referenced updates to N-Spect can reasonably be expected to be completed by late spring 2001. Directives regarding the proper use of the reporting tool will follow as the N-FOCIS reporting system is completed.

FINDING 3 (Performance Measures Need To Be Enhanced) recommends (4) ATF develop performance measures to measure the impact compliance inspection activities have on reducing violent crime.

Comments On Findings or Reasons for Disagreement

ATF is in the process of examining outcome measurements, which would reflect the impact of compliance inspections on reducing violent crime. The Offices of FO and FEA are working with the SPO to define and publish valid and useful performance measures.

Actions Taken

The ATF SPO held a seminar on performance measures for all Bureau Headquarters program personnel on January 17, 2001. The seminar focused on the development of performance measures and measurement skills and techniques.

Per your recommendation, the Firearms Trafficking Branch (FTB) has developed and published a specific performance measure to determine the impact of compliance inspections on violent crime.

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Assistant Inspector General For Audit

Using the information and guidance provided by the SPO, we will continue to develop and examine goals and define additional performance measures relative to the impact of compliance inspection activities.

Target Dates for Completion

As stated, ATF is actively participating with the SPO to establish performance measures for all aspects, offices and activities of the Bureau. The goal is to establish performance measures by mid-year, and to continue to redefine and refine the measures yearly.

We appreciate the time and careful attention your office has given to this important ATF program. Your work and the recommendations you provided will help us improve the management of ATF's Focused Inspection Program. We also appreciate the professionalism and courtesy of your staff. Should any additional information be needed, please contact Mr. Walfred A. Nelson, Deputy Assistant Director (Firearms, Explosives and Arson) at (202) 927-7940.

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